
CHAPTER 5. STATUTORY MORTGAGE LIMITS - HIGH COST AREA

- 5-1. BASIC STATUTORY LIMITS. Title 24 CFR Part 200 lists the
S statutory limits by section of the Act for each insured
multifamily program. Maximum mortgage limits established
R for a Field Office must not be less, or 110 percent higher
than the Basic Statutory Limits.
- 5-2. Mortgage Limit Exceptions - Sections 810 and 220(h), Solar
R Energy Systems and High Cost Increases under Sections 207,
213, 220, 221(d)(3), 221(d)(4), 231 and 234.

A.Section 810. The Secretary is authorized to increase Basic Statutory Mortgage Limits not to exceed 45 percent.

B.Section 220(h). Reference 10 of the foreword tells how to establish mortgage limits for this program.

C.Solar Energy Systems. The sections listed above authorize the Secretary to recognize added cost for qualifying systems and increase Maximum Statutory Limits not to exceed an additional 20 percent.

D.High Cost Area Increases. The sections listed above authorize the Secretary to increase Basic Statutory Limits, when necessary, to recognize higher than typical costs, for an individual project, not to exceed 140 percent.

5-3.DELEGATED AUTHORITY. The Secretary's authority to increase Basic Statutory Mortgage Limits is delegated through the Assistant Secretary for Housing-Federal Housing Commissioner to each MHD, subject to these instructions.

5-4. TERMINOLOGY.

A.Locality. A designated geographical area that generally includes several counties or parishes sharing similar construction costs.

1.Base Locality. The area with the most construction activity and generally the location of the Field Office.

with the most construction activity.

B.High Cost Area. A Base or Key Locality where multifamily housing replacement cost exceeds Basic Statutory Mortgage Limits.

C.High Cost Percentage (HCP). Reflects relationship between the level of multifamily housing replacement cost and the Basic Statutory Mortgage Limits.

5-5.APPLICABILITY. The authorized HCP applies to elevator and nonelevator structures.

5-6.BASE LOCALITY HCP REVISION. Headquarters will review annually and modify as necessary. Each Field Office will be notified of changes to its HCP.

5-7.KEY LOCALITY HCP REVISION. When the FO receives the Base Locality HCP authorization, the HCP for each Key Locality must be revised. This makes up for construction cost differences among localities.

Steps:

-Select the local multipliers for the Base and Key Localities from commercial indices.

-Divide the local multiplier for each Key Locality by the local multiplier for the Base Locality; the result in the cost differential ratio between the two areas.

-Multiply the Base Locality HCP by the Key Locality ratio; the result rounded down is the HCP for the Key Locality.

-The following example uses local multipliers found in the Marshall Swift Valuation Service to show how to develop the HCP for a Key Locality.

Base Locality HCP
168 percent (Base City)

Local Multipliers
Base Locality = 1.09
Key Locality = 1.03

Factor Key Locality = 1.03
_____ = .94 cost differential ratio
Factor Base Locality = 1.09

Base Locality HCP - 1.68 x .94 = 1.5792 rounded down = 1.57
or 157 percent = HCP for Key Locality.

A.Procedures: Field Office prepares the package described below and submits it for Headquarters' approval. Address it to the Director, Office of Insured Multifamily Housing Development.

B.Policy: The revised HCP will pertain only to the project for which it is requested; and increases will be considered only on a project-by-project basis.

Increases are subject to the limitations detailed in paragraph 5-2 of this book.

C.Requirements for Approval.

1.The package submitted to Headquarters must prove that:

- The housing is necessary.
- There is clear justification for the excessive cost. (For example - confined inner-city sites, remote location, scattered sites, or historic preservation are some conditions that make costs higher than for similar construction in the area.)

-Technical processing of the proposal was acceptable. (No increase will be granted without all the exhibits that are required below.)

2.The HCP requested must reflect, to the decimal (two places are sufficient - e.g., 178.52), the exact percentage needed to calculate a maximum mortgage supporting the underwriting conclusions.

D.Required Contents of Packages for Headquarters.

1.Exhibits. (Send copies of the HUD/FHA forms or counterpart automated printouts and supplemental estimate worksheets).

- a. 92013 - Application for Multifamily Housing Project.
- b. 92328 - Contractor's and/or Mortgagor's Cost Breakdown (firm stage only).
- c. 92325 - Report of Cost Processing.
- d. 92326A - Project Cost Estimate Worksheet.

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- (5-8) e. 92326 - Project Cost Estimate (Selected Comparable).
 - f. 92326 - Project Cost Estimate (Commissioner's

estimate).

- g. 92264 - Rental Housing Project Income Analysis and Appraisal.
- h. 92264A - Supplement to Project Analysis (Criterion 4, must show the maximum mortgage calculated by using the HCP requested.)
- i. Worksheets: Include all documentation not shown on the processing forms used to develop the replacement cost estimate and all supplemental estimates. The worksheets must show units of measure and bench mark costs used to prepare the estimates.

2.Rehabilitation proposal exhibits will include the combined work write-up resulting in the HUD estimate, instead of Exhibits c, d and e above.

E.Narrative Justification. The MHD's cover memorandum must: describe the need for the housing; state why the cost of the proposal is higher than similar construction in the area; and specify the HCP requested.

Note: The approval of HCP increases is proposed for redelegation to FO; this change will become effective 30 days after publication of the final rule.